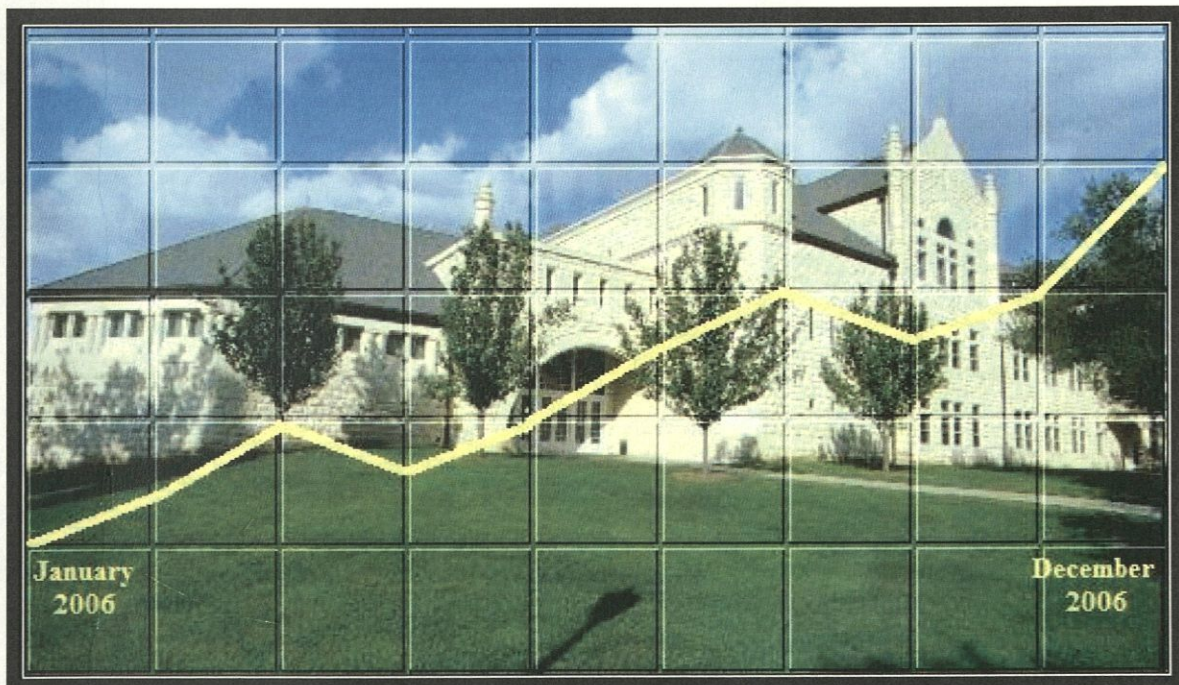


# Southwestern University

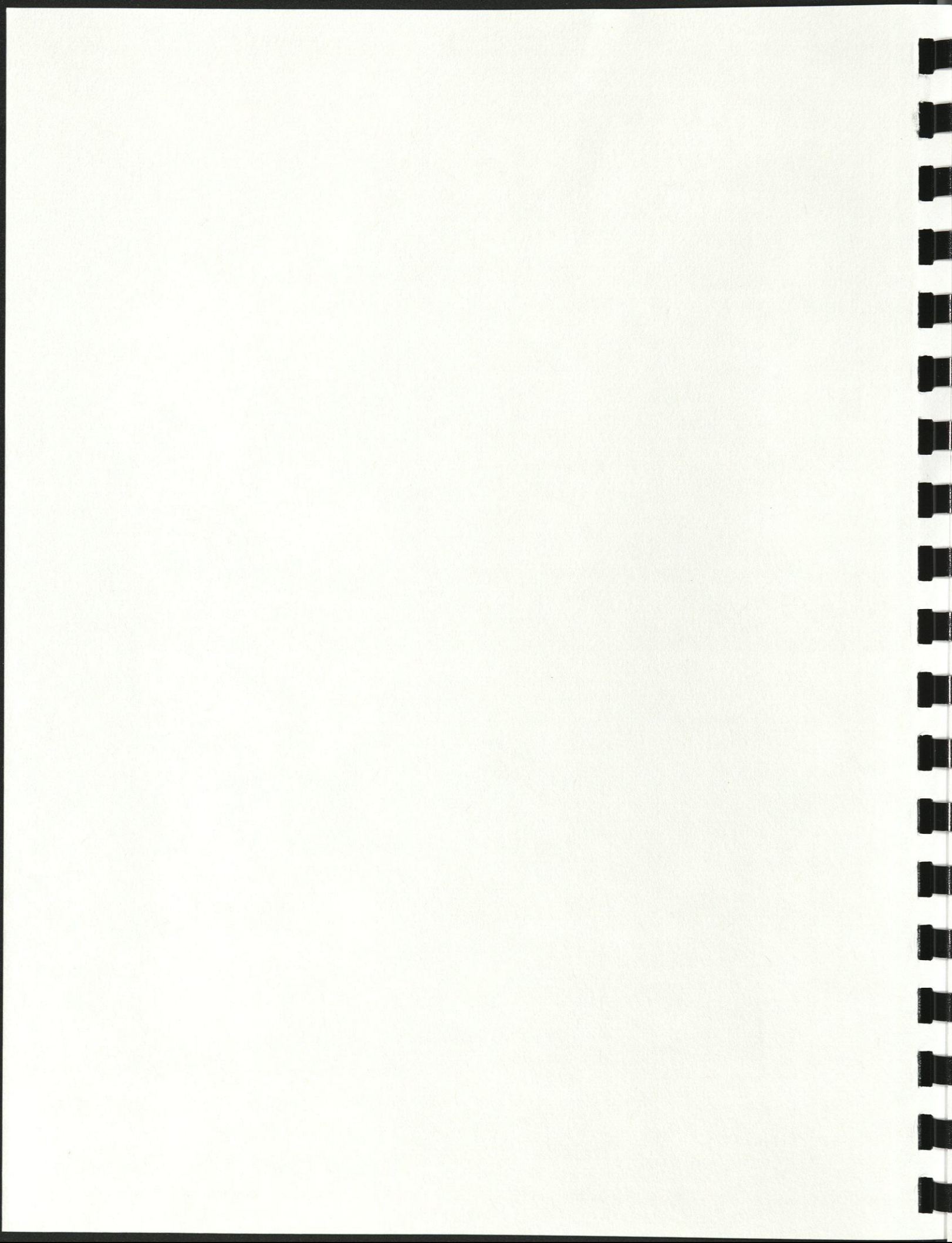


## FINANCIAL ANALYST PROGRAM



## 2006 ANNUAL REPORT



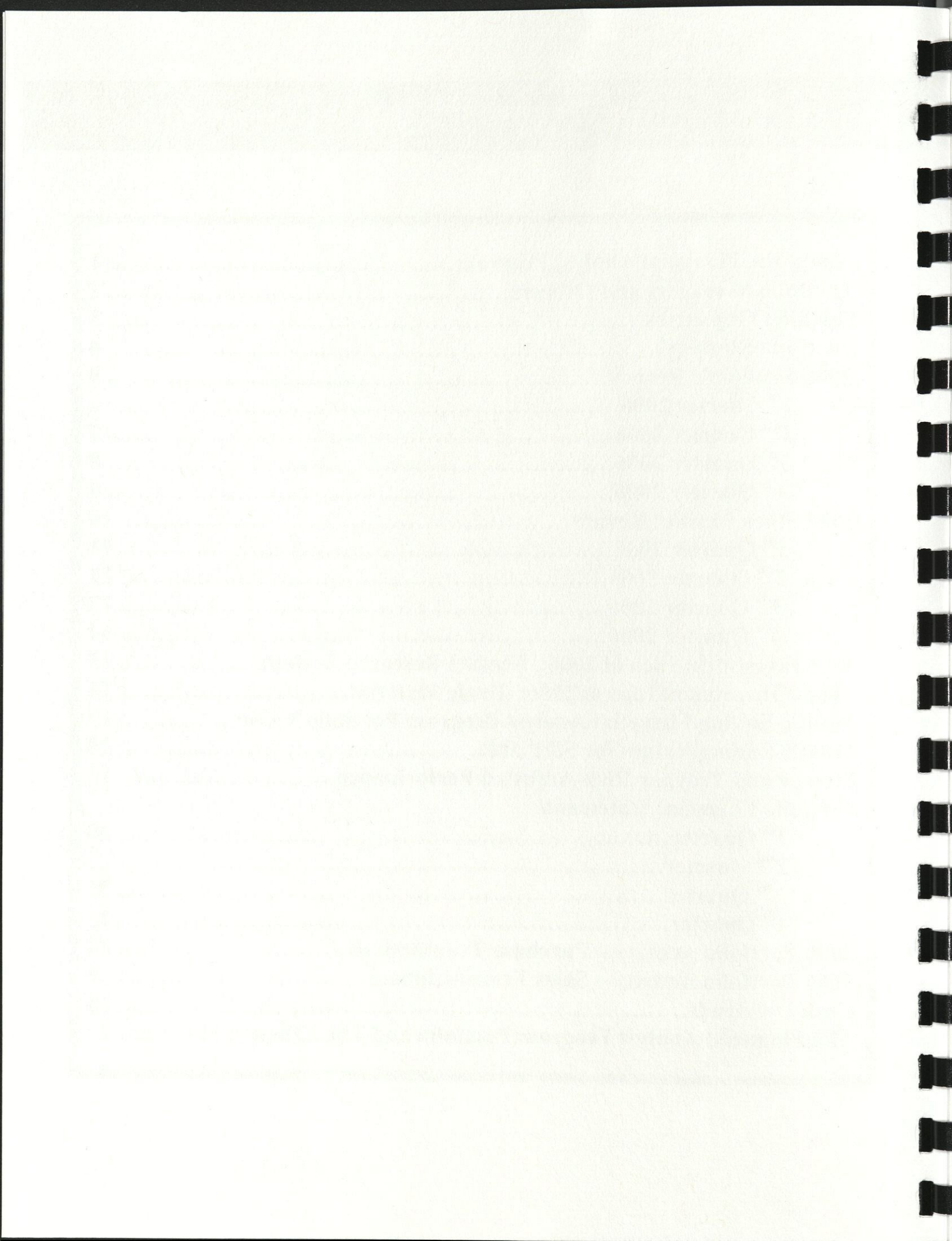




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# About the Financial Analyst Program

During the 1998-99 academic year, the Department of Economics and Business introduced a new undergraduate business honors curriculum – the Financial Analyst Program (FAP), under the direction of Professor A.J. Senchack, holder of the Lucy King Brown Chair in International Business. Working with Mr. Richard L. Anderson, Vice President of Fiscal Affairs, Dr. Senchack initiated a request for the creation of the Southwestern University Student Investment Fund, subject to approval by the Board of Trustees. The Fiscal Affairs Committee and the Board of Trustees fully endorsed the program, and the Board of Trustees approved and authorized the creation of the Student Investment Fund. In addition, the Board authorized the transfer of \$200,000 in endowment assets as the initial investment of the Fund. The first investment of the Financial Analyst Program was made on March 1, 2000.

The Fund is actively managed by Student Portfolio Managers under the guidance and advice of the faculty in the Department of Economics and Business. The Fund provides an opportunity for a small group of exceptional students to work closely with faculty and other investment professionals to develop their financial and accounting skills. The program also gives students real-world experience in constructing, monitoring, and managing a live investment portfolio. The Managers are selected by the FAP committee on a competitive basis. The criteria considered include career objectives, previous academic performance, related work experience, and application.

Participation in the FAP involves a year-long commitment, beginning in April before the student analysts' senior year. Members of the FAP extensively study two books discussing investment strategy. They will report a summary of the books to the other members of the FAP at the beginning of the Fall semester.

Also, member students are required to enroll in two challenging courses for the Fall semester, both taught by Professor A.J. Senchack. These courses are *Financial Statement Analysis* and *Investments*. Major topics covered in *Financial Statement Analysis* include: determining and understanding the sources of industry and company profitability; fundamentally analyzing financial statements, cash flow, sales/earnings growth, and business and financial risks; assessing earnings quality and sustainable sources of earnings growth; analyzing lines of business; valuing equity or equity-like securities; and assessing mergers and acquisitions.



# Portfolio Managers and Officers



## *Front (Left to Right):*

**Portfolio Manager, Craig Snoddy:** The portfolio manager attempts to reduce the risk of the portfolio through the diversification of securities. The portfolio manager makes sure that stocks add diversity to the fund by either adding exposure to new industries or by trying to lower the overall beta of the fund.

**Public Relations Coordinator, Kimberly Palmer:** The public relations officer is responsible for creating weekly agendas, providing email reminders, updating the brochure and constitution, and planning any recreational activities for the group. The public relations officer is also in charge of the promotion of the FAP to juniors who may be interested in applying.

**Web Master, Mimi Tang:** The web master is in charge of updating the program's website, making any appropriate changes, and continually improving the presentation and appearance of the website. Also, the web master is responsible for teaching the new web master how to access, operate, and modify the program's website.

## *Back (Left to Right):*

**Accountant, Katy Lukaszewski:** The accountant is responsible for maintaining updated monthly records/spreadsheets of the portfolio standing. Each month, upon receiving the monthly statement, the accountant must update the spreadsheet for purchases and sales that have occurred in that month, while accounting for interest, commissions, etc.

**Economist, Travis Casner:** The duties of the economist include monitoring macro-economic reports, and reporting any changes in the U.S. economy. Also, the economist should follow general predictions for the U.S. economy and keep the FAP updated on Fed actions. The primary responsibility of the trader is to act as a liaison between the FAP and the Business Office.

**Secretary, Rebecca Wyatt:** The secretary is in charge of taking minutes during our weekly meetings. The secretary is also responsible for emailing out the weekly minutes and keeping the FAP office organized. The duties of the computer analyst include keeping forms and files used in the program organized and easily accessible to the group. The computer analyst maintains the office computer and keeps the website up-to-date.

**Trader, Steven Kuban:** The trader is responsible for securing transaction authorizations and turning them into the Business Office. The trader must also keep track of buy/sell points assigned to each stock, and make sure those trades happen in an appropriate amount of time.



# Portfolio Objectives

**The objectives of the fund involve risk-exposure, capital growth, portfolio turnover, and managerial experience.**

- The fund purchases common stock issues of domestic and international corporations with large market capitalizations, and also, exchange traded funds, and mutual funds
- The most critical strategy is the fundamental analysis of potential stocks. The managers examine the financial health of the company, looking for companies with growth potential, strong current liquidity, and undervaluation. Through these examinations, the managers find innovative business models that indicate exceptional growth potential.
- The investment strategy requires detailed economic analysis to identify investment opportunities based on the overall economy.
- Technical analysis plays an important role in the selection of equities. Fund managers study historical price patterns of stocks to determine buy points, sell points, and relative strength.
- The managers monitor currently held stocks and industries to avoid excessive losses and to identify opportunities to accumulate gains from positively performing industries. The managers set sell points, which adjust to market conditions to help capture profits on successful stocks and minimize losses.



# Portfolio Strategy

**The fund follows the investment guidelines of the equity funds in Southwestern University's Endowment Funds: to preserve and expand the purchasing power relative to inflation for the future of Southwestern University.**

- The fund attempts to assume risks similar to those of the Standard and Poor's 500 Index (S&P 500). The fund in turn strives for a high return correlation with its benchmark.
- The fund looks to realize the highest level of return, consistent with the benchmark's risk level.
- The fund seeks a turnover rate of less than 100%. The fund needs a healthy rate of turnover to achieve its goal of capital growth, but excessive turnover violates the fund's long-term appreciation strategy.
- The fund also strives for above-average risk-adjusted returns based on the Sharpe and Treynor performance ratios. Positive and higher risk-adjusted returns in both of these measures reflect superior results.
- The fund helps the Managers gain valuable experience in creating and maintaining a portfolio and developing financial analysis skills in a real world situation.
- An emphasis on buy and sell points helps enhance returns and cut losses by automatically buying portions of our position, or selling additional shares as the stocks cross certain price thresholds.



## 2006 Economic Review

Economic events dominated the US equity markets early in 2006. Ben Bernanke replaced Alan Greenspan as Federal Reserve Chairman, after Greenspan's 19-year tenure as chief of the board. Bernanke's main objectives are implementing inflation targeting and making the Fed's decisions clearer to the public. Bernanke passed his first test and reined in the US economy without a sharper slowdown than the bears expected.

The Fed halted its monetary policy tightening, providing fuel for the market rally from mid-year onward. Since June 2004, the Fed increased interest rates 17 times from 1% to 5.25%. Despite widespread inflationary fears as we entered 2006, annual inflation fell slightly from 3.4% in 2005 to 3.2% in 2006. GDP was also down from 2005, falling from 3.5% to 3.3% for 2006. Housing was the most adversely effected sector, struggling through most of 2006, but regaining stability late in the fourth quarter. Fortunately, the housing struggle did not spread to other sectors, where corporate profits continually beat expectations. Lower energy prices reduced producer operating costs and boosted consumer spending, both of which added to the corporation's bottom lines. The federal budget deficit dropped to a four-year low of \$246 billion, and unemployment figures came in strong, with the unemployment rate falling from 4.9% in 2005, to 4.5% in 2006.

On the following pages, a more detailed, quarter-by-quarter review of 2006 economic events is presented.



## First Quarter 2006

The US economy started 2006 on a positive note. GDP was up 5.6% for the first quarter, caused by increases in consumer expenditures and exports. Personal income beat expectations in January and March by 0.1% and 0.4%, respectively. Inflation remained stable and investors expected a more cooperative Fed this year. The Fed raised rates 25 basis points, as expected, to 4.75%, signaling that inflationary concerns still linger. The yield curve remained inverted throughout the first quarter. This signaled that long-term investors were willing to settle for lower returns now and expected a worsening inflation situation in the future.

Input cost pressures caused increases in the producer price index (PPI). The PPI came in 0.1% above expectations in January and March. Capacity utilization stayed level around 81% throughout the quarter. The core consumer price index (CPI), which measures the price of a fixed basket of consumer goods, excluding food and energy, remained level with expectations throughout the first quarter. Strong holiday retail sales carried over into January, increasing 2.3% for the month, and beating the markets expectations of only a 1.0% increase. However, retail sales fell below expectations in both February and March. The Conference Board's consumer confidence index (CCI) came in above expectations in both January and March, indicating that consumers are confident about the current economic situation. In March, the CCI was 5.2 basis points above the markets expectations, indicating that consumers are likely spending more than saving because of increased optimism in the markets outlook.

The unemployment rate increased slightly, ending the first quarter at 4.7%, as expected. Capital spending stayed level, despite strong corporate balance sheets filled with excess cash flow. The housing market began the year with strong numbers in January, with both housing starts and building permits coming in above expectations. However, rising commodity prices caused a slowdown in the latter part of the quarter, and the numbers fell below expectations.



## Second Quarter 2006

After a strong start in 2006, economic events in the second quarter caused a slight market slowdown. In early-May, the Fed made it clear they would raise rates one more time to keep inflation in check. The Fed increased interest rates another 25 basis points, to 5.0%. Investors were concerned the Fed would not be able to engineer a soft landing for the market, and were willing to sacrifice growth to control inflation. The pullback lasted until mid-June, when the Fed announced it may soon stop its tightening campaign. GDP was cut in half for the second quarter, falling to 2.6%.

Rising energy costs had a widespread effect on the economy in the second quarter. Nevertheless, investors expected the increases, and factored them into their predictions. The core CPI and PPI, excluding food and energy costs, came in above expectations, signaling to the Fed that inflation is not quite settled. Rising energy costs led to increased input costs for producers, who tried to pass the increased costs onto consumers. However, when producers increased prices, consumer expenditures slowed. Retail sales fell below expectations in April and March, signaling that consumers were unable to keep spending due to increased gas prices. Personal expenditures outweighed personal income in April, leveled off in May, and expenditures fell below income in June. This showed that consumers began saving more than spending later in the quarter. Nevertheless, consumer confidence remained strong, and the CCI came in above expectations in all three months. This showed investors that consumers maintain an optimistic outlook.

Increasing energy prices also had an impact on the housing market. Housing starts fell below expectations in April and June, and building permits came in below expectations in all three months. This signaled that the housing market slowdown will likely continue into the third quarter. The unemployment rate remained level at 4.7%, despite an abundant supply of temporary workers. Employers needed only to fill skilled labor position.



## Third Quarter 2006

After raising rates one more time, to 5.25%, the Fed left rates unchanged in September. Unchanged interest rates and lower energy costs helped spark a third-quarter market rally. The GDP dropped slightly in the third quarter, falling 2.2%. Lower fuel costs gave consumers more disposable income, causing an increase in consumer spending. Further, retailers pulled back prices, further boosting sales.

The PPI fell below expectations in all three months, largely due to drops in energy prices that led to decreased input costs. However, productivity was below expectations in the third quarter, signaling that producers were getting less output per unit of input. The CPI stayed level with expectations, signaling that inflation is under control and no further rate hikes are necessary. The CCI beat expectations in July and September, signaling that consumers are pleased with their financial position, and optimistic heading into the fourth quarter holiday season. Retail sales remained strong in July and August, but fell below expectations in September. Personal expenditures outweighed income in July, but the trend reversed in August and September. The increased consumer savings in the latter half of the quarter left retailers optimistic about the upcoming holiday season.

The housing market continued its slowing trend, and the median home price fell for the first time since 1995. Homebuilders suffering from increasing inventories were forced to cut prices or offer incentives to buyers, further reducing profits. Housing starts and building permits came in well below expectations in July. However, building permits came in slightly below expectations in August, and housing starts beat expectations in September. This signaled that the housing market is slowly stabilizing heading into the fourth quarter. After increasing to 4.8% in July, the unemployment rate dropped to 4.6% in September.



## Fourth Quarter 2006

The Fed left interest rates unchanged throughout the fourth quarter, ending 2006 at 5.25%. The GDP increased 2.5% in the fourth quarter, leading to a 3.3% annual increase. Inflation was under control and the market rallied to year-end. The Fed succeeded in designing a soft landing for the stock market, proving the bears wrong. Bernanke breathed a sigh of relief after passing his first test as Fed Chairman. The unemployment ended 2006 at 4.5%, down from 4.9% in 2005. Energy costs stabilized in the fourth quarter, relieving pressures on both producers and consumers.

The PPI came in well below expectations in October, as energy costs stabilized early in the quarter. However, the core PPI increased 1.3% in November, as producers faced higher prices in areas other than energy. Nevertheless, producers absorbed the additional costs, and did not pass them on to consumers. The CPI came in below expectations early in the quarter, with no increase from October to November. Both the PPI and CPI increased in December, but showed only nominal increases. Consumer confidence was down early in the quarter, signaling that consumers were less optimistic about their current position and the economy's outlook. Nevertheless, the holiday season brought robust gains in consumer spending, and retail sales beat expectations in both November and December. Personal expenditures outweighed income in the latter two months, further signaling a strong holiday sales season. Both housing starts and building permits beat expectations in November and December. This signaled that the housing market was finally leveling off, and growth should continue into the first quarter of 2007.

Overall, the CPI increased 2.4% in 2006, and the core CPI increased 2.7%. Both numbers are below the 3.23% inflation increase for 2006. The PPI increased 2.6% in 2006, and the core PPI increased 1.8%. This showed that rising input costs can largely be attributed to energy costs. Personal income increased 5.3% for the year, but disposable income only increased 2.6%, as consumers faced higher gas prices. The savings rate was negative for 2006, continuing a multi-year trend. The US trade balance was also negative for 2006, as imports outweighed exports. Overall, the economic news was more pleasing than not in 2006, and the US economy is stable heading into 2007.



## 2006 Stock Market Review

The stock market was both volatile and interesting in 2006. The market entered 2006 with three previous years of a bull market. The market rally that began in late-2005 continued until early May, but a sharp sell-off, lasting until mid-July, left the market below its January opening. Then, a steady rally lasted from late-July to year end. The S&P 500 rose 13.6% (1,248.29-1,418.30), or 15% with dividends reinvested. The S&P 500 hit many record highs along the way, and turned in its best performance since 2003. Moderate interest rates combined with corporate earnings beating expectations and heavy M&A activity helped fuel the gains. Again, small-caps outperformed large-caps, and value stocks outperformed growth stocks, continuing a multi-year trend. However, several widely used rules-of-thumb failed. Historically, midterm election years are the worst of the cycle, i.e., we generally see a decline late in the year. Many investors that stood on the sidelines waiting for a pullback were disappointed when one never came. This trend reversal highlighted the underlying strength of the US economy.

The year started out with a surge in commodity prices and widely-feared inflationary pressure. The middle of the year brought a housing bust that did not reverse until the fourth quarter. The latter half of 2006 brought lower gasoline prices that fueled consumer confidence and spending. Telecommunication services was the year's best performing industry, posting one year gains of 36.8% and ending the energy sector's three-year trend of superior performance. Nevertheless, energy stocks finished strong with gains of 24.2%, followed by utilities and financials with a 21.0% and 19.2% gain, respectively. The materials and consumer discretionary sectors were both a close fifth with gains near 19%.

Next is a more detailed, quarter-by-quarter breakdown of the stock market's progress through 2006.



## First Quarter 2006

The equity markets picked up '06 where they left off in '05, and continued climbing. The S&P 500 enjoyed a 4.2% return over the three month period. Investors enjoyed healthy corporate growth, benign inflation and reasonable valuation of stocks. News headlines read of the possibility that Ford and GM could go bankrupt, which investors feared could cause a recession. Google was booming and trading near \$200 while traditional media stocks such as Time Warner and New York Times were falling rapidly. Also, investors wondered when large-caps would regain their dominance over small-caps, and whether the trend of value beating growth would continue in 2006.

A mild winter caused natural gas prices to fall nearly 50% while oil prices fell only a few dollars to end the quarter in the mid-\$60's. However, investors were already bidding up the prices on futures contracts for natural gas and oil in anticipation of hurricane season. The energy giant, ExxonMobil, used its size and efficient economies of scale to post a 9.3% gain over the three month period. Overall, the energy sector contributed to about 20% of the S&P's total gains. Corporate balance sheets were strong and companies used their excess cash flow to purchase assets further helping the market. Also, financials profited from an increase in M&A activity and companies going private, which led to an increased demand for corporate financing from investment bankers such as Goldman Sachs.

Despite a drop in commodity prices, homebuilders continued to lag behind due to a slowing housing market and interest rate hikes that continued into 2006. The investors that were contributing to Google's dramatic increases were not using the search engine to shop online, as internet retailers fell. The radio industry continued to fall in '06, which dropped nearly 14%, making it the worst performing industry of the quarter.

Overall, the first quarter started the markets off in the right direction and set the stage for a fourth straight year of equity gains.



## Second Quarter 2006

The market rally that began in late 2005 came to a halt in the second quarter of 2006. The S&P 500 declined -1.4% loss overall, but was still up for the year. The decline started in the second week of May and by the end of the second quarter the market had given back all of the year's gains finishing only slightly above the year's opening level. The catalyst for the early-May decline was chairman Bernanke's announcement that the Fed would likely continue raising rates because of increased inflationary concerns. Foreign markets provided no escape as even they fell in the second quarter. One place to look during such an uncertain market environment is high-quality large-cap stocks, which many analysts believed were cheaper than ever before. This led to large-caps finally outperforming small-caps, but value continued to outperform growth.

Investor sentiment went down after Bernanke's announcement, and few sectors fared well in the second quarter. However, despite the uncertainty of interest rates and inflation, financials profited. Also, the media sector reversed its five-year trend of being the worst performing sector, and posted a 2.4% profit for the quarter. Comcast, for example, profited from the numerous customers signing up for their Triple Play package, which bundles TV, internet and phone services as one, and gained over 20% during the quarter. The energy sector profited from a jump in oil prices to around \$74/barrel and, although inventories remained strong, concerns lingered over the US's conflicts with Iran. Concerns of another disastrous hurricane season drove natural gas prices up as well.

The software sector took over for media as the worst performing sector, and posted losses around 10%. Microsoft continued to struggle with the delay of the release of its new Vista software system. Homebuilders continued declining, dropping nearly 27% for the quarter, and the outlook was not good with interest rates poised to rise yet again. The technology sector, a very economically-sensitive sector, was among the worst performers as companies are less likely to spend money upgrading their technology systems when economic concerns linger.

The second quarter confirmed what every investor already knows, bull markets cannot prevail forever, and although the market declined during the three months it was still up for the year.



## Third Quarter 2006

Despite an early drop in the third quarter from earnings disappointments the equity markets rebounded nicely after the second quarter swoon and rallied from late-July onward. The third quarter brought a surprising 5.2% increase in the S&P 500, although the fall has historically been a bad time for equities. Large-caps were the market leaders during the third quarter, and they continued the trend from the second quarter of outperforming small-caps. Cooling inflationary pressures and the Fed holding rates steady led to the Dow hitting an all-time record high in the third quarter, and the S&P hit several multi-year highs.

The software sector went from the worst performer in the second quarter to the best in the third, and posted gains near 14%. Microsoft fueled gains by announcing an increase in its share buyback program. The entertainment industry benefited from software's gains and rose 29% during the quarter. Technology also profited from the Fed holding rates steady as companies became more optimistic about the future. Some of the traditionally defensive sectors, such as health care and consumer staples, did well in the third quarter as many investors had switched to defensive positions during the second quarter.

Although the energy sector led all others in the first half of the quarter, it declined and ended up being one of the worst performers overall. Oil and natural gas prices dropped because of a mild summer and investors believed inventories were getting too high. Also, investors became excited over the idea of agrochemicals reducing our dependency on crude oil. However, the energy giant ExxonMobil's used its economies of scale to post an 8.3% increase, despite a 7% drop at one point because of falling gas prices. Homebuilders still floundered despite lower long-term interest rates. The collapse of the Amaranth hedge fund provided some unique excitement in the third quarter. The fund made bets on natural gas futures hoping for a repeat of 2005's hurricane season. When the bets went **sour** the fund lost over \$6 billion in one week, recording the largest hedge fund collapse in history. This event gave hedge-funds a bad name and proved that the heavy use of derivatives by such funds can cause an economic crisis. The third quarter helped provided most of the market gains for 2006 thus far after the second quarter drop, and the market entered the fourth quarter on a high note.



## Fourth Quarter 2006

The US equity markets finished 2006 with a bang just as they did in 2005. Several factors contributed to the rally that began in late-July lasting until year end. Such factors included: corporate earnings beat their expectations; the Fed left interest rates untouched; oil stabilized in the \$60's; and natural gas recovered from the late-summer swoon and the Amaranth incident. Because of the expanding global economy, many of these factors, combined with a decline in the value of the US dollar, contributed to international markets seeing returns in the mid-20's. Measured in dollar terms the only market to do worse than the US was Japan, with a 5% return. Value outperformed growth in all quarters, but small-caps regained their dominance over large-caps after losing it in the second and third quarters.

The year saw record levels of M&A activity as companies scrambled to use their excess cash-flow, and often paid premiums to acquire other businesses. This helped fuel gains in the financials sector, and companies such as Goldman Sachs excelled at year end. The energy sector continued to rise despite energy prices. ExxonMobil recorded the largest one-quarter profit for any US company in the fourth quarter. The company saw profit of \$10.7 billion for Q4 and \$36.13 billion for 2006. The media sector finished the year strongly fueled by gains in companies such as DirecTV and Comcast. Health care saw single digit gains, and despite lingering concerns over the drug Vioxx, Merck soared in the fourth quarter.

Homebuilders stabilized after their late-summer drop with help from the Fed holding rates steady, but still fared poorly relative to other sectors.

The fourth quarter provided a fitting end for US equity market. Analysts that predicted 2006 would bring an end to the bull market were proven wrong, and the market is well-positioned entering into 2007, when the S&P 500 will celebrate its 50<sup>th</sup> anniversary.

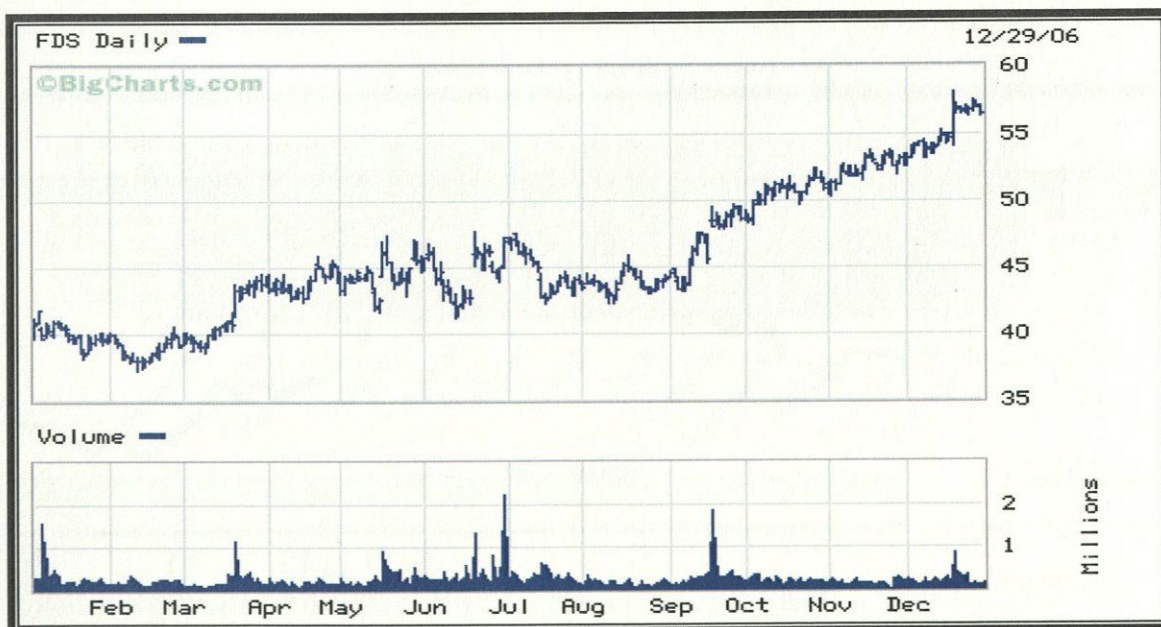


## Best Investment Idea of 2006: FactSet Research System

FactSet Research System has been one of our best investment ideas in 2006. The price of the stock increased 28% during the year. FactSet Research System is in the information service industry and provides financial information and analytical applications to investors.

During the year, FactSet experienced growth in many segments of their business. FactSet's subscriptions increased \$69.7 million during the year. FactSet also experienced growth in overseas operations increasing 38% or by \$31 million. The company opened its new European headquarters in London, to help meet the overseas clients' needs. FactSet expanded their services by acquiring [europrospectus.com](http://europrospectus.com). The service offers full-text searching on debt, equity, and warrant prospectuses and programs.

Also during the year, revenues increased 27% to \$105.2 million. FactSet had a very good year and we expect it to continue in 2007.



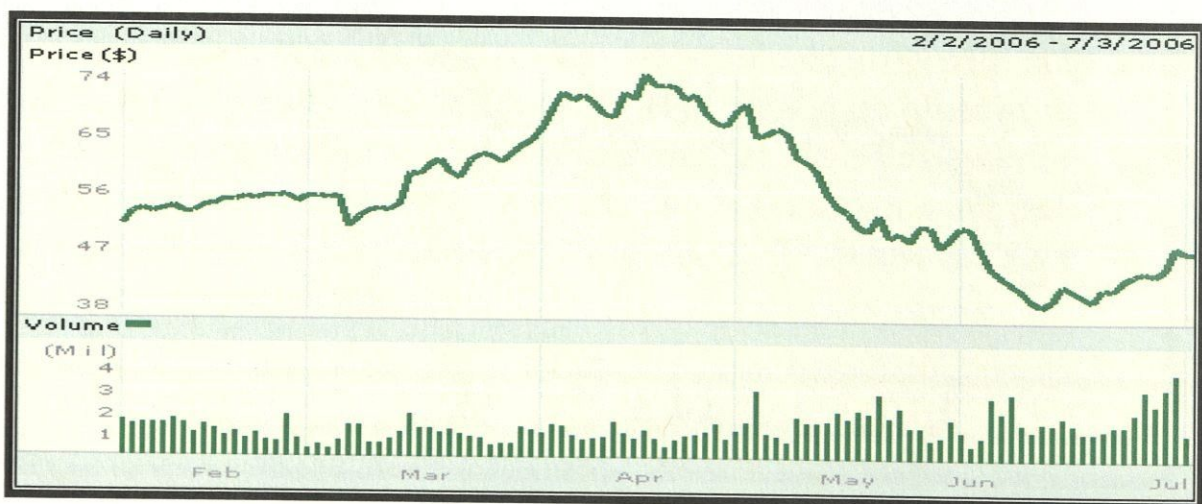


## Worst Investment Idea of 2006: Eagle Materials

The purchase of Eagle Materials (EXP) in April 2006 was our worst investments idea of 2006. Eagle Materials is in the Construction Materials Industry. The largest percentage of their cash inflow is from the Cement Division. The FAP bought EXP at an all time high of \$70 per share in mid April.

The mistake we made about this stock is that we bought it after a significant run up in the early parts of 2006. Investors Business Daily considered EXP to be the best stock in the industry based on technicals and fundamentals. EXP was also ranked #1 in timeliness by Value Line. The chart below shows the decline of EXP after our purchase in April. EXP dropped 28% in May, forcing the FAP to sell. Analyst's reports revealed that there were no changes in EXP's fundamentals to blame for the sell off.

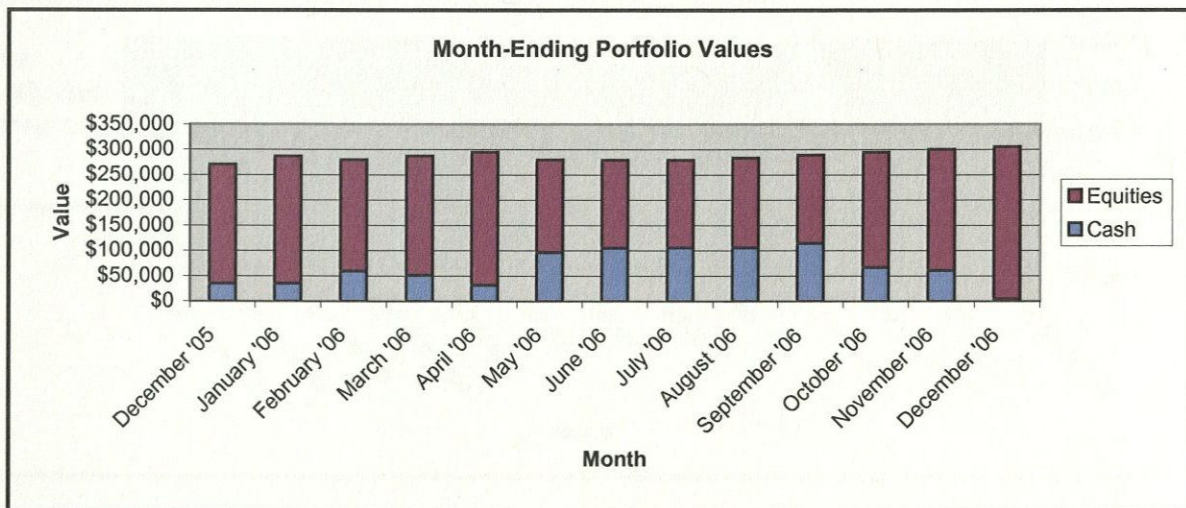
The lesson we learned as analysts was not to buy a stock after a substantial run up, and be careful with "Momentum Investing". Although Eagle Materials was one of our worst purchase decisions in 2006, it provided a useful lesson that there are more factors that go into decision making than just analyst rankings.





## Month-Ending Financial Analyst Program Portfolio Value

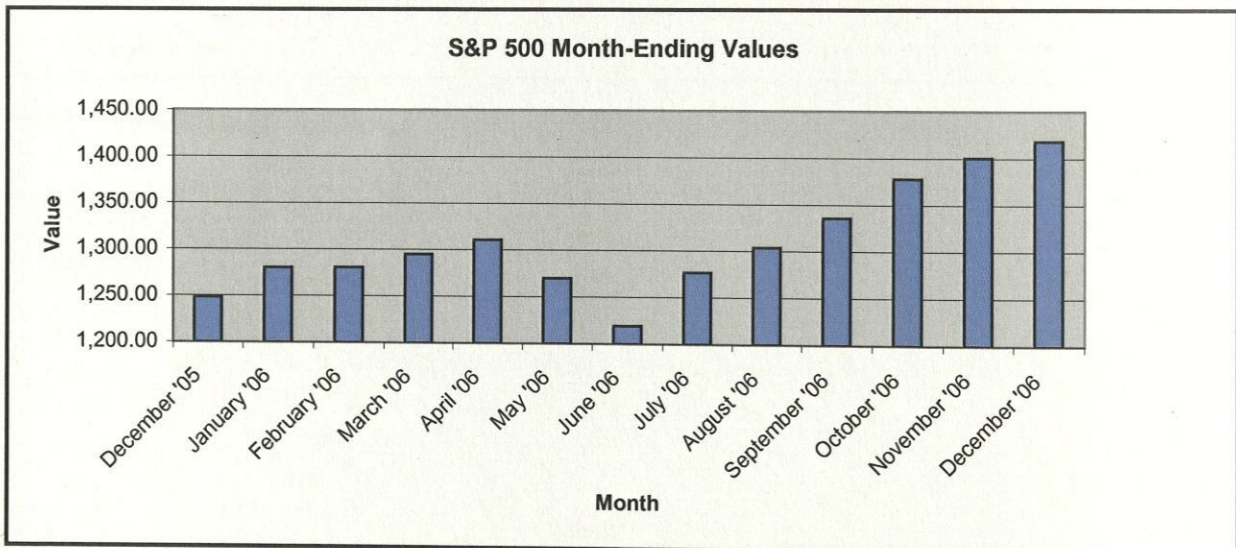
Month Ending	Cash	Equities	Portfolio Value	% Change per Month
December '05	\$34,672	\$235,845	\$270,517	
January '06	34,843	252,370	287,213	6.17%
February '06	58,923	221,022	279,946	-2.53%
March '06	51,094	236,735	287,829	2.82%
April '06	31,448	263,479	294,927	2.47%
May '06	96,281	183,976	280,257	-4.97%
June '06	105,130	174,214	279,344	-0.33%
July '06	105,546	173,980	279,525	0.06%
August '06	106,042	177,612	283,654	1.48%
September '06	114,692	174,646	289,339	2.00%
October '06	66,679	228,822	295,501	2.13%
November '06	60,279	240,920	301,199	1.93%
December '06	3,772	302,099	305,870	1.55%
<b>Average Monthly Return</b>				<b>1.06%</b>
<b>Annual Return</b>				<b>13.07%</b>
<b>Portfolio Turnover</b>				<b>61.30%</b>





## Month-Ending Values For S&P 500

Month Ending	S&P 500 Close	% Change per Month
December '05	1,248.29	
January '06	1,280.08	2.55%
February '06	1,280.66	0.05%
March '06	1,294.87	1.11%
April '06	1,310.61	1.22%
May '06	1,270.09	-3.09%
June '06	1,219.29	-4.00%
July '06	1,276.66	4.71%
August '06	1,303.82	2.13%
September '06	1,335.85	2.46%
October '06	1,377.94	3.15%
November '06	1,400.63	1.65%
December '06	1,418.30	1.26%
<b>Average Monthly Return</b>		<b>1.10%</b>
<b>Annual Return</b>		<b>13.62%</b>





## Sharpe and Treynor Risk-Adjusted Performance

Month Ending	Portfolio Return Less	S&P 500 Return Less	Risk Free Rate	
	Risk Free Rate	Risk Free Rate	Month Ending	Rate
January '06	5.81%	2.19%	January '06	0.36%
February	-2.90%	-0.32%	February	0.37%
March	2.44%	0.73%	March	0.38%
April	2.09%	0.84%	April	0.38%
May	-5.36%	-3.48%	May	0.39%
June	-0.69%	-0.37%	June	0.37%
July	-0.35%	0.10%	July	0.41%
August	1.06%	1.71%	August	0.42%
September	1.63%	2.08%	September	0.38%
October	1.71%	2.73%	October	0.42%
November	1.50%	1.22%	November	0.43%
December	1.16%	0.87%	December	0.39%
<b>12 Month Average</b>	<b>0.67%</b>	<b>0.69%</b>	<b>12 Month Average</b>	<b>0.39%</b>

	FAP Portfolio	S&P 500
Standard Deviation	2.81%	1.64%
Beta Risk	1.46	1.00
Sharpe Risk Risk-Adjusted Performance	0.24	0.42
Treynor Risk-Adjusted Performance	0.005	0.007



**1st Quarter 2006  
Ending March 31, 2006**

	Shares	Cost Per Share	Cost Basis	Price Per Share	Market Value
<b>Cash and Cash Equivalents</b>			\$51,094		\$51,094
<b>Equities:</b>					
Carpenter Technology	100	\$51.63	\$5,163	\$94.52	\$9,452
Champion Enterprises	400	14.51	5,804	14.96	5,984
Coach Inc	200	26.21	5,242	34.58	6,916
ExxonMobil Corp.	200	50.50	10,100	60.86	12,172
Factset Research System	300	34.53	10,336	44.35	13,305
FISPX	3,951	20.18	79,764	25.71	101,590
Goldcorp Inc	250	27.44	6,860	29.25	7,313
Home Depot Inc	125	39.48	4,935	42.30	5,288
International Gaming Technology	200	33.93	6,786	35.22	7,044
iShares MSCI Japan	1,000	11.68	11,680	14.40	14,400
Motorola Inc	200	23.39	4,678	22.91	4,582
Oil Service Holdrs	100	138.51	13,851	146.81	14,681
Peabody Energy Corp.	60	37.80	2,268	50.41	3,025
Penn VA Resource Partners LP	120	54.70	6,564	57.37	6,884
Qualcomm Inc.	150	33.52	5,028	50.61	7,592
Thor Industries Inc.	100	38.68	3,868	53.36	5,336
Unitedhealth Group Inc.	200	31.62	6,323	55.86	11,172
<b>Total Common Stocks</b>			\$189,250		\$236,735
<b>Total Assets</b>			<b>\$240,344</b>		<b>\$287,829</b>
Beginning Portfolio Value (12/31/05)			\$270,517		
Ending Portfolio Value (3/31/06)			287,829		
<b>% Change for 1st Qtr 2006</b>					<b>6.40%</b>
<b>Company Name</b>	<b>Ticker</b>	<b>Date</b>	<b>Shares Owned</b>	<b>Type of Split</b>	
Peabody Energy Corp.	BTU	2/23/2006	30	2 for 1	



**2nd Quarter 2006  
Ending June 30, 2006**

	Shares	Cost Per Share	Cost Basis	Price Per Share	Market Value
<b>Cash and Cash Equivalents</b>			\$105,130		\$105,130
<b>Equities:</b>					
Coach Inc	150	\$29.20	\$4,380.50	\$29.90	\$4,485.00
Exxon Mobil Corp.	200	50.50	10,100	61.35	12,270
Factset Research System	300	34.53	10,336	47.30	14,190
FISPX	3,967	20.20	80,159	25.23	100,095
Home Depot Inc	125	39.48	4,935	35.79	4,474
International Gaming Technology	300	35.57	10,672	37.94	11,382
iShares MSCI Japan	500	11.68	5,840	13.64	6,820
Motorola Inc	200	23.39	4,678	20.15	4,030
Penn VA Resource Partners LP	240	27.35	6,564	26.88	6,451
Qualcomm Inc.	250	40.81	10,203	40.07	10,018
<b>Total Common Stocks</b>			\$147,867		\$174,214
<b>Total Assets</b>			<b>\$252,997</b>		<b>\$279,344</b>
Beginning Portfolio Value (3/31/06)			\$287,829		
Ending Portfolio Value (6/31/06)			279,344		
<b>% Change for 2nd Qtr 2006</b>			<b>-2.95%</b>		
<b>Company Name</b>	<b>Ticker</b>	<b>Date</b>	<b>Shares Owned</b>	<b>Type of Split</b>	
Penn VA Resource Partners LP	PVR	4/5/2006	120	2 for 1	



**3rd Quarter 2006  
Ending September 30, 2006**

	Shares	Cost Per Share	Cost Basis	Price Per Share	Market Value
<b>Cash and Cash Equivalents</b>			\$114,692		\$114,692
<b>Equities:</b>					
Coach Inc	150.00	\$29.20	\$4,380.50	\$34.40	\$5,160.00
Exxon Mobil Corp.	150	50.50	7,575	67	10,065
Factset Research System	300	34.45	10,336	49	14,571
FISPX	3,983	20.23	80,579	27	105,597
Goldman Sachs Group	20	170.34	3,407	169	3,383
International Gaming Technology	400	36.51	14,605	42	16,600
iShares MSCI Japan	500	11.68	5,840	14	6,770
Motorola Inc	500	24.49	12,244	25	12,500
<b>Total Common Stocks</b>			\$138,967		\$174,646
<b>Total Assets</b>			<b>\$253,659</b>		<b>\$289,339</b>
Beginning Portfolio Value (6/30/06)			\$279,344		
Ending Portfolio Value (9/30/06)			289,339		
<b>% Change for 3rd Qtr 2006</b>			<b>3.58%</b>		



**4th Quarter 2006**  
**Ending December 31, 2006**

	Shares	Cost Per Share	Cost Basis	Price PerShare	Market Value
<b>Cash and Cash Equivalents</b>			\$3,772		\$3,772
<b>Equities:</b>					
Cameron International Corp.	150	\$50.80	\$7,620	\$53.05	\$7,958
Coach Inc	350	35.41	12,393	42.96	15,036
Comcast Corp.	200	38.41	7,682	42.33	8,466
DirecTV Group	350	20.62	7,217	24.94	8,729
Walt Disney Company	300	34.87	10,461	34.27	10,281
Exxon Mobil Corp	150	50.50	7,575	76.63	11,495
Factset Research Sytems Corp.	200	34.45	6,891	56.48	11,296
FISPX	4,316	20.64	89,068	26.07	112,515
Goldman Sachs Group	20	170.34	3,407	199.35	3,987
International Gaming Technology	400	36.51	14,605	46.20	18,480
iShares MSCI Japan	500	11.68	5,840	14.21	7,105
iShares Global Telecom	170	64.46	10,958	63.31	10,763
Lam Research Corp.	100	51.42	5,142	50.62	5,062
Nordstrom Inc.	200	48.54	9,708	49.34	9,868
Schlumberger Ltd	162	65.94	10,683	63.16	10,232
Staples Inc.	575	25.58	14,709	26.70	15,353
SPDR Metals & Mining ETF	150	50.18	7,527	49.08	7,362
UBS	125	62.00	7,750	60.33	7,541
Vanguard European ETF	215	68.80	14,792	68.16	14,654
Varian Semiconductor Equipment	130	41.68	5,418	45.52	5,918
<b>Total Common Stocks</b>			<b>\$189,250</b>		<b>\$302,099</b>
<b>Total Assets</b>			<b>\$193,021</b>		<b>\$305,870</b>
Beginning Portfolio Value (9/30/06)		\$289,339			
Ending Portfolio Value (3/31/06)		305,870			
<b>% Change for 4th Qtr 2006</b>		<b>5.71%</b>			



## 2006 Portfolio Activity - Purchase Transactions

	Company Name	Ticker	Date	Shares	Price	Outlay
<b>Quarter 1</b>	Goldcorp Inc	GG	3/9/2006	250	\$27.34	\$6,860
	Oilfield Services Hldrs	OIH	3/9/2006	100	138.41	13,851
<b>Quarter 2</b>	Coach Inc	COH	4/13/2006	100	35.09	3,519
	Goldman Sachs Group	GS	4/13/2006	50	162.85	8,148
	Thor Industries Inc.	THO	4/9/1900	100	55.47	5,557
	Peabody Energy Corp.	BTU	4/21/2006	60	56.01	3,366
	Eagle Materials Inc	EXP	4/26/2006	100	72.17	7,227
	International Gaming Technology Corp.	IGT	5/1/2006	100	38.76	3,886
	Qualcomm Inc.	QCOM	5/1/2006	100	51.65	5,175
	Omnicare Inc	OCR	5/5/2006	100	56.48	5,658
<b>Quarter 3</b>	Motorola Inc.	MOT	9/26/2006	300	25.12	7,566
<b>Quarter 4</b>	Goldman Sachs Group	GS	10/4/2006	20	170.24	3,407
	Cameco Corp.	CCJ	10/11/2006	100	35.60	3,570
	Comcast Corp.	CMCSA	10/17/2006	200	38.31	7,682
	DirecTV	DTV	10/17/2006	350	20.52	7,217
	UBS	UBS	10/24/2006	125	61.89	7,750
	Cameco Corp.	CCJ	10/24/2006	100	38.78	3,888
	Cameron International Corp.	CAM	10/24/2006	150	50.69	7,620
	Schlumberger Ltd.	SLB	10/24/2006	125	62.07	7,771
	Coach Inc	COH	10/30/2006	200	39.96	8,012
	Staples Inc.	SPLS	11/8/2006	575	25.48	14,709
	Nordstrom Inc.	JWN	11/16/2006	100	47.00	4,708
	Nordstrom Inc.	JWN	11/28/2006	100	49.92	5,000
	iShares Global Telecom	XME	12/4/2006	75	51.25	390
	Schlumberger Ltd.	SLB	12/7/2006	100	68.20	6,828
	Vanguard European ETF	VGK	12/12/2006	215	68.72	14,792
	Walt Disney Company	DIS	12/22/2006	300	34.79	10,461
	Lam Research Corp.	LRCX	12/22/2006	100	51.34	5,142
	Varian Semiconductor Equipment Co.	VSEA	12/22/2006	130	41.60	5,418
	iShares Global Telecom	XME	12/27/2006	75	48.95	3,677
					<b>Total</b>	<b>\$198,854</b>



## 2006 Portfolio Activity - Sale Transactions

	Company Name	Ticker	Date	Shares	Price	Proceeds	
<b>Quarter 1</b>	Peabody Energy Corp.	BTU	2/8/2006	30	\$102.33	\$3,070	
	Lihir Gold Ltd	LIHR	2/24/2006	125	31.36	3,920	
	Southwestern Energy Co.	SWN	2/24/2006	300	35.33	10,599	
	Lihir Gold Ltd	LIHR	3/2/2006	200	31.79	6,358	
	Southwestern Energy Co.	SWN	3/15/2006	100	29.00	2,900	
<b>Quarter 2</b>	Carpenter Technology Corp.	CRS	4/5/2006	100	97.40	9,740	
	Unitedhealth Group Inc.	UNH	4/19/2006	200	53.23	10,646	
	Carpenter Technology Corp.	CRS	5/1/2006	50	128.05	6,403	
	Thor Industries Inc.	THO	5/5/2006	100	50.73	5,073	
	Eagle Materials Corp	EXP	5/15/2006	100	61.81	6,181	
	Carpenter Technology Corp.	CRS	5/23/2006	50	112.40	5,620	
	Coach Inc.	COH	5/23/2006	150	30.75	4,613	
	Peabody Energy Corp.	BTU	5/23/2006	120	60.51	7,261	
	Thor Industries Inc.	THO	5/23/2006	100	47.25	4,725	
	Champion Enterprises	CHB	5/31/2006	200	12.97	2,594	
	Goldcorp Inc	GG	5/31/2006	250	30.61	7,653	
	Goldman Sachs Group	GS	5/31/2006	50	145.27	7,264	
	Omnicare	OCR	5/31/2006	100	44.64	4,464	
	Oil Service Holdrs	OIH	6/1/2006	100	149.20	14,920	
	Champion Enterprises	CHB	6/13/2006	100	11.01	1,101	
	iShares MSCI Japan	EWJ	6/13/2006	500	12.85	6,425	
	<b>Quarter 3</b>	ExxonMobil Corp.	XOM	9/12/2006	50	67.82	3,391
		Penn VA Resource Partners LP	PVR	9/26/2006	240	24.66	5,918
		Home Depot Inc.	HD	10/4/2006	125	36.60	4,575
		Qualcomm Inc.	QCOM	10/4/2006	250	36.75	9,188
<b>Quarter 4</b>	Cameron International Corp.	CCJ	11/16/2006	200	33.50	6,700	
	Motorola Inc	MOT	11/16/2006	500	21.46	10,730	
	Schlumberger Ltd	SLB	11/27/2006	63	64.89	4,088	
					<b>Total</b>	<b>\$176,118</b>	

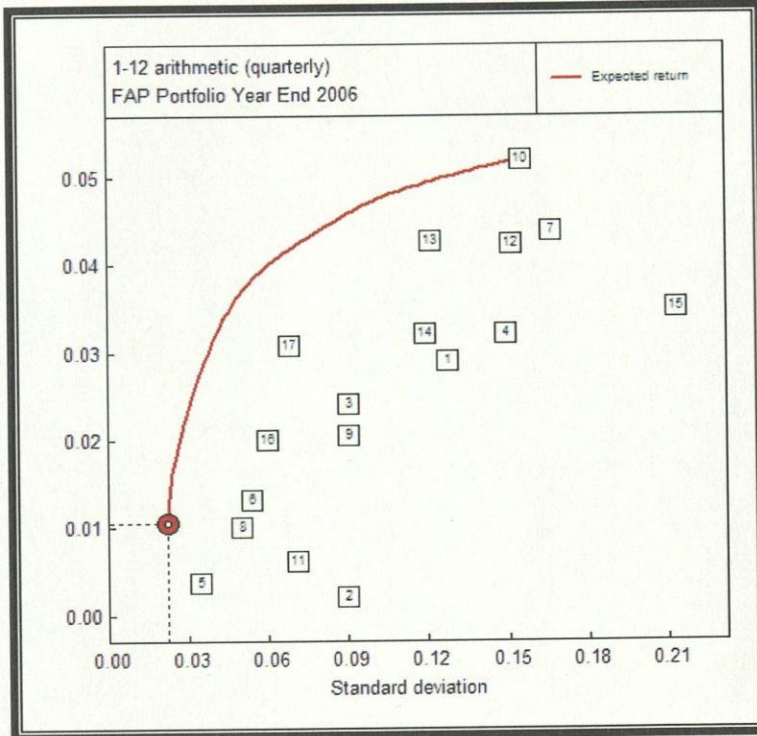


## Cash Dividends

Name	Ticker	Date	Div Per			Name	Ticker	Date	Div Per		
			Shares	Share	Cash				Shares	Share	Cash
<b>Quarter 1</b>						Goldcorp	GG	5/31/2006	250	\$0.02	\$3.75
Qualcomm	QCOM	1/4/2006	150	\$0.09	\$13.50	Carpenter Tech	CRS	6/1/2006	50	0.15	7.50
Thor Industries	THO	1/4/2006	100	0.05	5.00	Oil Service Holdrs	OIH	6/5/2006	100	0.01	1.38
Inter. Gaming	IGT	1/5/2006	200	0.13	25.00	ExxonMobil	XOM	6/9/2006	200	0.32	64.00
Motorola	MOT	1/13/2006	200	0.04	8.00	Factset Research	FDS	6/20/2006	300	0.06	18.00
Penn VA	PVR	2/14/2006	120	0.70	84.00	Home Depot	HD	6/22/2006	125	0.15	18.75
Peabody Energy	BTU	2/22/2006	60	0.12	7.20	Qualcomm	QCOM	6/23/2006	250	0.12	30.00
Carpenter Tech	CRS	3/2/2006	200	0.15	30.00	Fed Max-Cap	FISPX	6/28/2006	3951	0.10	395.14
ExxonMobil	XOM	3/10/2006	200	0.32	64.00	<b>Quarter 3</b>					
Factset Research	FDS	3/21/2006	300	0.05	15.00	Inter. Gaming	IGT	7/11/2006	300	\$0.13	37.50
Home Depot	HD	3/23/2006	125	0.15	18.75	Motorola Inc	MOT	7/17/2006	200	0.05	10.00
Qualcomm	QCOM	3/24/2006	150	0.09	13.50	Penn VA	PVR	8/14/2006	240	0.38	90.00
Fed Max-Cap	FISPX	3/27/2006	3937	0.09	362.24	ExxonMobil	XOM	9/11/2006	200	0.32	64.00
Goldcorp	GG	3/31/2006	250	0.02	3.75	Factset Research	FDS	9/19/2006	300	0.06	18.00
<b>Quarter 2</b>						Home Depot	HD	9/21/2006	125	0.15	18.75
Thor Industries	THO	4/3/2006	100	\$0.07	\$7.00	Fed Max-Cap	QCOM	9/22/2006	250	0.12	30.00
Oil Service Holdrs	OIH	4/4/2006	100	0.00	0.28		FISPX	9/27/2006	3967	0.11	420.50
Inter. Gaming	IGT	4/4/2006	200	0.13	25.00	<b>Quarter 4</b>					
Motorola	MOT	4/14/2006	200	0.04	8.00	Motorola	MOT	10/13/2006	200	\$0.05	10.00
Oil Service Holdrs	OIH	4/17/2006	100	0.01	1.40	Inter. Gaming	IGT	10/23/2006	400	0.13	52.00
Unitedhealth	UNH	4/17/2006	200	0.03	6.00	Goldman Sachs	GS	11/20/2006	20	0.35	7.00
Oil Service Holdrs	OIH	4/17/2006	100	0.04	4.49	ExxonMobil	XOM	12/11/2006	150	0.32	48.00
Goldcorp	GG	4/28/2006	250	0.02	3.75	Nordstrom	JWN	12/15/2006	200	0.11	21.00
Oil Service Holdrs	OIH	5/10/2006	100	0.01	0.75	Factset Research	FDS	12/19/2006	200	0.06	12.00
Penn VA	PVR	5/15/2006	240	0.35	84.00	Global Telecom	XME	12/28/2006	75	0.11	8.10
Oil Service Holdrs	OIH	5/23/2006	100	0.03	2.73	Fed Max-Cap	FISPX	12/28/2006	4296	0.12	515.52
Goldman Sachs	GS	5/25/2006	500	0.04	17.50	Vanguard Europe	VGK	12/29/2006	215	1.81	388.94
Peabody Energy	BTU	5/25/2006	120	0.06	7.20	iShares Japan	EWJ	12/29/2006	500	0.10	49.50
Oil Service Holdrs	OIH	5/31/2006	100	0.01	0.80						



# The Financial Analyst Program Portfolio & The Efficient Frontier



		1-12 arithmetic (quarterly)	
		return	std
1	CCJ	0.0289	0.1273
2	CAM	0.0020	0.0898
3	COH	0.0240	0.0906
4	CMCSA	0.0321	0.1494
5	DTV	0.0037	0.0342
6	XOM	0.0131	0.0539
7	FDS	0.0438	0.1662
8	FISPX	0.0101	0.0500
9	GS	0.0204	0.0903
10	IGT	0.0520	0.1550
11	EWJ	0.0062	0.0711
12	MOT	0.0424	0.1512
13	SLB	0.0426	0.1212
14	SPLS	0.0321	0.1191
15	UBS	0.0350	0.2132
16	SP500	0.0200	0.0600
17	FAP Portfolio	0.0307	0.0681

The images above reflect the position of our Portfolio at the end of 2006. This information is gathered by using Efficient Solutions Visual MVO (mean-variance optimizer), which allows the FAP to see where their portfolio sits relative to the Efficient Frontier. The red squared indicates where the overall portfolio lies relative to the stocks that comprise the portfolio as well as the Efficient Frontier and the S&P 500. The information is plotted based on historical monthly returns of each individual asset in the Portfolio(X-Axis), and the monthly Standard Deviations(Y-Axis). This allows us to see how much risk the overall portfolio is taking on compared to the S&P 500 and whether new assets will add or subtract risk to our portfolio. As of the end of 2006, the FAP Portfolio was taking on significantly more risk than the S&P 500.